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Coffee

Annual

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Report Highlights: The Guatemalan coffee crisis continues, in response to low world coffee prices production remains steady at the lowest levels in the last twenty years. For the year 2003-04 production is forecast at 3.802 million bags, steady from the previous year. Exports for 2002-03 are estimated at 3.5 million bags and a slight decrease to 3.45 million bags is forecast for the 2003-04 crop.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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Executive Summary

The Guatemalan coffee crisis continues, in response to low world coffee prices production remains steady at the lowest levels in the last twenty years. For the year 2003-04 production is forecast at 3.802 million bags, steady from the previous year. Exports for 2002-03 are estimated at 3.5 million bags and a slight decrease to 3.45 million bags is forecast for the 2003-04 crop. In the last couple of years the coffee industry has been experiencing a downsizing in the production units in response to poor coffee prices. The crisis has been affecting the local economy and especially in the rural areas. For the current coffee harvest employment of farm labor has been only one half of the normal requirements. This severely impacted the poor rural population who depend upon coffee harvest employment as one of their few sources of cash income.

One result of the crisis is total supply has been decreasing due to a decrease of smuggled coffee from Honduras and a decrease in their local production. Guatemalan production numbers do not differentiate between local production and illegal imports since domestic producers usually claim such coffee as their own for commercial purposes. Current PS&D registers smuggled coffee from Honduras as imports showing a difference between this report's production numbers and local numbers provided by the Guatemalan Coffee Association (ANACAFE). Certifying farms for organic coffee and strictly hard bean production is becoming more popular in order to give coffee a value added and survive the crisis. Organically grown and strictly hard bean coffee can demand a premium of up to $20 per bag, which for a farmer is very attractive in the current situation of low prices.

Guatemalan coffee consumption remained steady at 420,000 bags in 2003. For 2004 consumption is expected to continue at 420,000 bags.

PSD Table						
Country	Guatemala					
Commodity	Coffee, Green				(1000 HA)(MILLION TREES)(1000 60 KG BAGS)	
	2002	Revised	2003	Estimate	2004	Forecast
	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]
Market Year Begin		10/2001		10/2002		10/2003
Area Planted	272	272	272	272	0	272
Area Harvested	230	230	225	225	0	225
Bearing Trees	750	750	750	750	0	750
Non-Bearing Trees	91	91	91	91	0	91
TOTAL Tree Population	841	841	841	841	0	841
Beginning Stocks	75	75	5	5	37	37
Arabica Production	3503	o3800	3775	3775	0	3775
Robusta Production	27	27	27	27	0	27
Other Production	0	0	0	0	0	0
TOTAL Production	3530	3827	3802	3802	0	3802
Bean Imports	150	150	150	150	0	50
Roast & Ground Imports	0	0	0	0	0	0
Soluble Imports	0	0	0	0	0	0
TOTAL Imports	150	150	150	150	0	50
TOTAL SUPPLY	3755	4052	3957	3957	37	3889
Bean Exports	3330	3627	3500	3500	0	3450
Roast & Ground Exports	0	0	0	0	0	0
Soluble Exports	0	0	0	0	0	0
TOTAL Exports	3330	3627	3500	3500	0	3450
Rst,Ground Dom. Consum	400	400	400	400	0	400
Soluble Dom. Consum.	20	20	20	20	0	20
TOTAL Dom. Consumption	420	420	420	420	0	420
Ending Stocks	5	5	37	37	0	19
TOTAL DISTRIBUTION	3755	4052	3957	3957	0	3889

Production

Based upon contracts ANACAFE reports that the Guatemalan coffee production from the harvest 2002-03 is estimated at 3.802 million bags. For the crop 2003-04 production is forecast to remain steady at 3.802 million bags. This year we understand that many coffee farms are still closing or laying off labor to reduce production costs.

In the current harvest period the coffee industry is still experiencing extremely low prices. In a regular harvest season the coffee industry used to employed around 40 percent of the agricultural farm labor and supported around 62,500 farm owners throughout the country. Currently, 225,000 hectares are expected to be harvested the lowest area since 1977. For 2003-04 harvest area is forecast to remain steady at 225,000 hectares.
Large and medium sized farms represent around 70 percent of Guatemala's coffee production. Increases in wages and decreases in coffee income, have forced some of these farmers to either stop coffee production or diversify to other crops. This has been the case especially in the coastal areas where alternatives exist for the land. During the past marketing year the cost of wages in coffee remained steady at $431.05 million, while total income from export sales represented $230 million (95% of total production is exported). In addition, during the harvest season coffee farms employ around 500,000 people for different labor activities. According to ANACAFE in 2003-04 employed labor is expected to be reduced to around 200,000 people.

Another factor causing the drop patterns in Guatemala's total coffee supply is a significant reduction of smuggled coffee from Honduras. Local production numbers do not differentiate between local production and illegal imports since local producers usually claim such coffee as their own for commercal purposes. Current PS&D registers smuggled coffee from Honduras as imports showing a difference between this report and local production numbers. For the 2003-04 crop smuggled coffee from Honduras is expected to decrease further to 50,000 bags.

Coffee produced in Guatemala can be classified as prime washed, extra prime washed, hard bean, and strictly hard bean. Strictly hard bean is produced in higher and mountain areas, while prime and extra prime are being produced in the lower altitude coastal areas. Hard bean coffee is produced in the lower altitude mountain areas and in the higher altitude coastal areas. Due to low world coffee prices there is an existing shift in coffee production, with more areas of strictly hard bean being produced (around 60% of total production) and less areas of prime and extra prime being produced. This is due to the fact that strictly hard bean has a higher value in comparison to prime and extra prime. Among regions producing strictly hard bean in Guatemala are Antigua, Atitlán, Huehuetenango, Cobán and Fraijanes. Some coffee farmers located in the south part of the country as we previously mentioned are either abamdoning their farms or shifting to other crops such as bananas, rubber, and palm. in response to the substantial decrease in world prices, discouraging investment in coffee production.
Many coffee farmers realize that changes are needed. Some will diversify into other crops, others will grow organic coffee and sell to niche markets. The interest in farming organic coffee is increasing in Guatemala. International markets give a bonus above the regular price for organically farmed coffee. For 2003, Guatemala's registered organic coffee production is expected to accounts for 7 percent of total production, because of the time lapse needed to be registered and the time lapse needed for new organic plants to start bearing fruits. Results are expected to be seen in about 5 years.

Consumption

Guatemalan coffee consumption decreased slightly at 420,000 bags in 2002 due to a decrease in soluble consumption in response to higher demand for specialty coffees in european markets, and Guatemalan exports of solubles to neighboring countries. For 2003 consumption is expected to remain steady at 420,000 bags.

Export Trade Matrix			
Country	Guatemala		
Commodity	Coffee, Green		
Time period	Jan-Dec	Units:	60 Kg bags
Exports for:	2002		2003
U.S.	1,650,000	U.S.	1,600,000
Others		Others	
Germany	500,000	Germany	500,000
Japan	250,000	Japan	250,000
Belgium	200,000	Belgium	200,000
Netherlands	180,000	Netherlands	180,000
Italy	130,000	Italy	130,000
Canada	130,000	Canada	130,000
Sweden	120,000	Sweden	120,000
France	100,000	France	100,000
Finland	67,000	Finland	67,000
Total for Others	1677000		1677000
Others not Listed	300,000		223,000
Grand Total	3627000		3500000

Import Trade Matrix			
Country	Guatemala		
Commodity	Coffee, Green		
Time period	Jan-Dec	Units:	60 Kg bags
Imports for:	2002		2003
U.S.		U.S.	
Others		Others	
Honduras	150,000	Honduras	150,000
Total for Others	150000		150000
Others not Listed			
Grand Total	150000		150000

Trade

Exports for the 2003-04 crop are forecast to decrease slightly to 3.45 million bags. If this forecast is achieved, it will be the lowest exports since 1995. Imported contraband coffee from Honduras is estimated at 150,000 bags for 2003. About one half of last year's level. The reduction in contraband is due to local incentives from the Honduran Government to have their farmers deliver the crop within Honduras. For the 2003-04 crop smuggled coffee from Honduras is expected to decrease further to 50,000 bags. Again the United States is Guatemala's most important customer, accounting for almost half of total Guatemalan coffee exports. Germany, Japan, Belgium, Netherlands and Sweden are normally the next top five export destinations. Most exports are during the months from December to May.

Policy

Last year the Government of Guatemala authorized a $100 million trust fund to assist coffee farmers during the crisis. The trust fund will be managed by ANACAFE and will provide financial assisstance to coffee farmers at a low interest rate. In addition, USAID and IDB are supporting the coffee farmers with loan programs to compensate for low prices. In spite of Government assistance to the sector, the Governmnet of Guatemala increased taxes and performed reforms in some of the taxation laws, which according to ANACAFE will raise costs and depress the industry even further. ANACAFE argues that such Governmental decisions will increase unemployment, land invasions and migration. In addition encourage bankrupcy of productive units and decrease the economic activities in coffee producing regions. Nevertheless the government is raising taxes to balance the budget as required in the country constitution.